

FATHOM OCEANOLOGY LIMITED

TWELFTH
ANNUAL
REPORT
1981

President's report to the shareholders

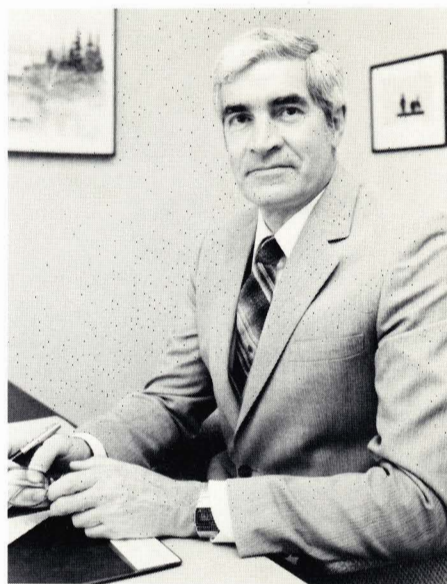
Summary of Operations

The pre-tax income for the fiscal year ended March 31, 1981 was \$540,100 compared with \$497,800 in the prior year, the fourth consecutive year in which your Company's income has continued to increase.

On an after tax basis, income before extraordinary item for the year under review was \$308,100 compared to \$272,800 last year. This result represents a 12% increase over that of one year ago, a satisfactory situation considering the small change in the total revenue of the two years in question.

Although on a per share basis, it is true that an income reduction to \$0.16 per share from \$0.17 per share has taken place, it must be recognized that the total number of shares outstanding has risen from 1,859,966 to 1,982,966. This increase in the total number of shares outstanding arises from the exercise of share options in fiscal 1981. The lower earnings per share mainly results from the weighted effect of the conversion of redeemable notes into 286,749 shares in February 1980.

In fiscal 1980, there was an extraordinary item arising from an income tax loss carry forward amounting to \$87,000, which



John B. Stirling, President and Chief Executive Officer.

increased the net income of that year to \$359,800. Because all such loss carry forwards have been utilized for tax purposes, there is no extraordinary item to report for this fiscal year.

The revenue for fiscal 1981 at \$3,537,000 is below our original expectations, and represents a 3% reduction from the record levels achieved in the preceding annual period and results in a year end backlog of \$1,632,000. However, the improved productivity of your Company is revealed by the fact that there was an overall increase in the gross profit of 43% in 1980 to a level of 47% in 1981.

This improved performance, of course, contributes significantly to the increase in net profit reported above, and more than compensates for the slight reduction in turnover.

The orders received for the year amounted to \$2,460,000. While this was 66% above the level achieved in the preceding year, it fell short of our planned level. This is basically because of the loss of one major military towing system during the first quarter, for which no substitute could be found. This particular system was one on which we had expended considerable proposal effort in 1980 and for which we had high hopes. With this exception, however, market penetration of your Company's products progressed favorably, the cable fairing group, for example, exceeding budget by nearly 20%.

Part of our strategy for the year was to increase our participation in the supply of goods and services to the Canadian Armed Forces. While Fathom had always done a considerable amount of study work, we had not been favored with a great number of supply contracts. As the result of a particular effort for this year, we were successful in booking and delivering four double walled stainless steel domes for hull mounted sonar sets. In addition we received, but have not yet completed, a contract to evaluate other types of cable fairing.

On the organization and administrative front, we concentrated on developing the

Highlights

	1981	1980
Revenue	\$3,537,000	\$3,628,000
Income before extraordinary item	\$ 308,100	\$ 272,800
— Per share	\$ 0.16	\$ 0.17
— Fully diluted per share	\$ 0.15	\$ 0.15
Net income for the year	\$ 308,100	\$ 359,800
— Per share	\$ 0.16	\$ 0.22
— Fully diluted per share	\$ 0.15	\$ 0.19
Shareholders' equity	\$1,425,100	\$1,071,000

Cover caption

Fathom FLEXNOSE fairing undergoing high speed trials at the Naval Ship's Research and Development Centre in Washington, D.C.

President's report to the shareholders

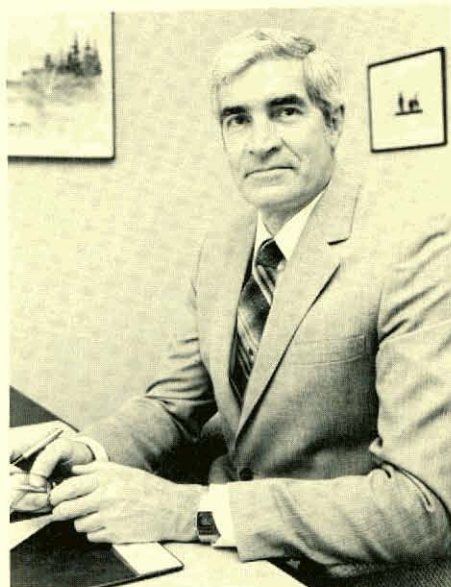
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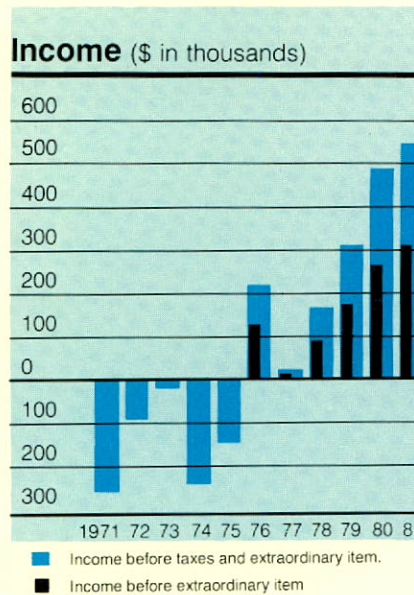
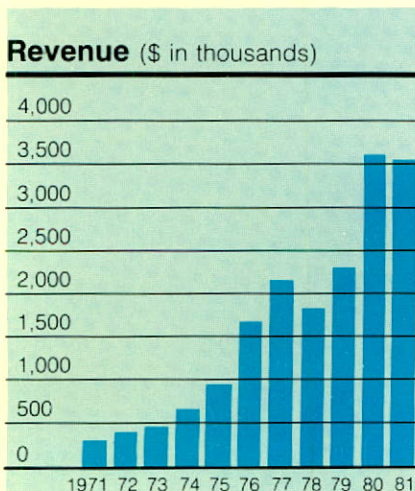
existing organization rather than making any structural changes. In this sense we succeeded in reinforcing the personnel resources of the technical group, marketing and manufacturing.

A major decision on the administrative side was to acquire our own computer capability to handle our accounting and cost control systems. Following a careful and lengthy process of evaluation, the equipment was delivered in late December of 1980 and has already demonstrated benefits to operations which will be further enhanced in the future.

The electronic data processing equipment supplied also provides word processing capability, and provides the opportunity to adapt certain manufacturing systems to computer control. It is expected that we will enter this phase in the coming fiscal year.

Returning to the financial picture, the bar charts on these pages graphically depict the excellent progress that has been made over several years.

We have already referred to the revenue and income statistics in previous paragraphs. It should also be noted that other financial dimensions have continued to change for the better. For example, working capital increased during the year by \$419,000 to a record level of \$1.2 million and our current ratio now stands at 2.5:1. In addition, current assets are now more liquid than a year ago with cash



balances in particular showing a 50% increase to \$365,000.

The investment in fixed assets was not so dramatic as last year, being restricted to materials handling equipment and improved lifting capacity for the machine shop, with the result that the net investment in this class of asset shows a small reduction.

With shareholders' equity now standing at \$1,425,000, the virtual elimination of long term debt, and the strong working capital position outlined above, the Company is in a sound position to pursue many previously unavailable opportunities for growth, including further acquisitions and research and development projects.

To some degree, at least, the continued financial maturity of the Company was reflected by the acceptance of Fathom's stock for listing on the Toronto Stock Exchange. This event, which recognized the progress of Fathom, took place on August 14, 1980 with the adoption of the trading symbol FAM in the industrial classification.

During the year, your Board of Directors accepted with regret the retirement of Mr. R. I. L. Fjarlie, Vice Chairman and one of the founders of the Company. In so doing, the board drew attention to his

many years of service and his personal contribution to Fathom over that period.

In March 1981, Mr. D. W. Paterson, Vice President of Wood Gundy Limited, and for some time an interested supporter of your Company, graciously accepted the Chairman's invitation to join the board. We are confident that he will make a substantial contribution to the future of the Company.

During the year under review, total employment did not reach as high a peak as in the previous fiscal year, even though total revenues were very similar.

This is a measure of the steady contribution made by our employees, in all functions of the Company, and we thank them sincerely for another solid performance.

John B. Stirling,
President & Chief
Executive Officer.

Revenue distribution - 1981

Capital acquisitions - 2%
Taxes - 7%
Net Income - 9%
Supplies & services - 20%
Materials - 22%
Wages & salaries 40%

Review of operations

Contract and manufacturing progress

The facilities improvements carried out in fiscal 1980 and prior years showed their value once again in the expeditious handling of contracts already in house, as well as those booked during this fiscal year. As a result, a revenue similar to last year's was handled without reaching the same peak manpower levels, and significant cost improvements were made on several important contracts.

An order received during the year from National Steel Shipbuilding Company of San Diego, California, consisting of a towing winch, cable handling system, five storage reels and other components provided a significant shop load, which was well on schedule by year end.

The contract with Raytheon Company for six model 15-750 Fathom VDS systems for the Italian Navy reached its mid point, when the third system was shipped complete. The first of these systems was installed on board ship and some preliminary testing was completed.

The two major spare parts contracts for the Brazilian Navy VDS systems, which had been booked in the previous fiscal year were completed during the first quarter. One faired cable winch for a U.S. Navy research program and one refurbished unit, were also shipped during the period under review. Two additional similar winches were booked for Western Electric Company and were well under way at year's end.

Orders received for both FLEXNOSE and RIGSTREAM fairings were above budget for the year, and made good contributions to both revenue and profit, while spare parts were provided for the larger PIPESTREAM fairing.

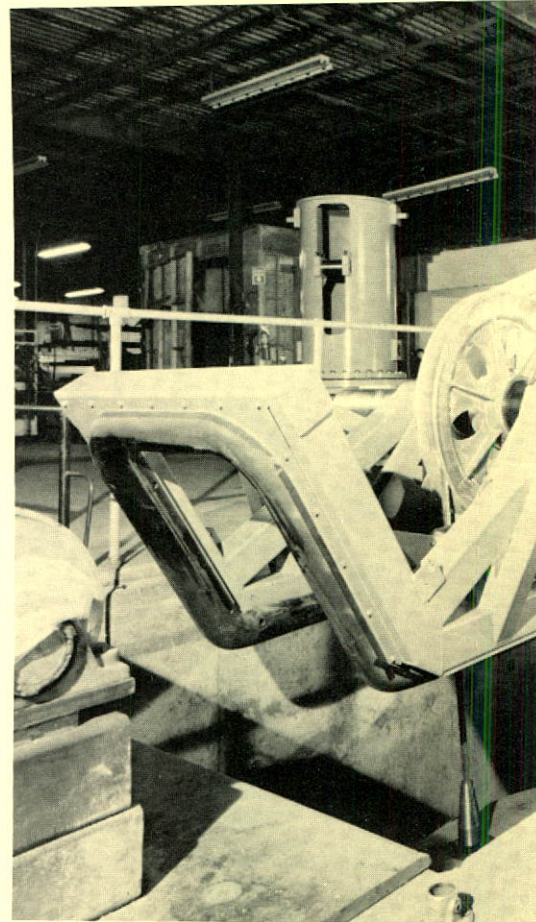
Five double walled stainless steel sonar domes were delivered, four to the Canadian Armed Forces and one to Raytheon Company for service with the Spanish Navy.

Technical service personnel carried out assignments on both coasts of the United States, in Scandinavia, in Italy, and in the far north, the latter in conjunction with a project intended to evaluate a VDS system for iceberg survey purposes.

Research and development

The year began with a major program to complete a full scale prototype of the CASCAN buoyancy system, and have it tested under conditions simulating full ocean depths. The test program, witnessed by representatives of five potential client drilling or oil companies, and held at South West Research Institute in Texas, was completely successful. Subsequent technical and economic evaluations conclude that the system offered is highly cost competitive.

A venture to test the feasibility of a novel method of generating electrical power from wave action advanced to a model stage. In this case a one-quarter scale model of a WEGEPOWER buoy was successfully tested at the National Research Council manoeuvring basin in Ottawa. This device appears to have export potential for sale to island communities to supplement other conventional electrical energy systems. At

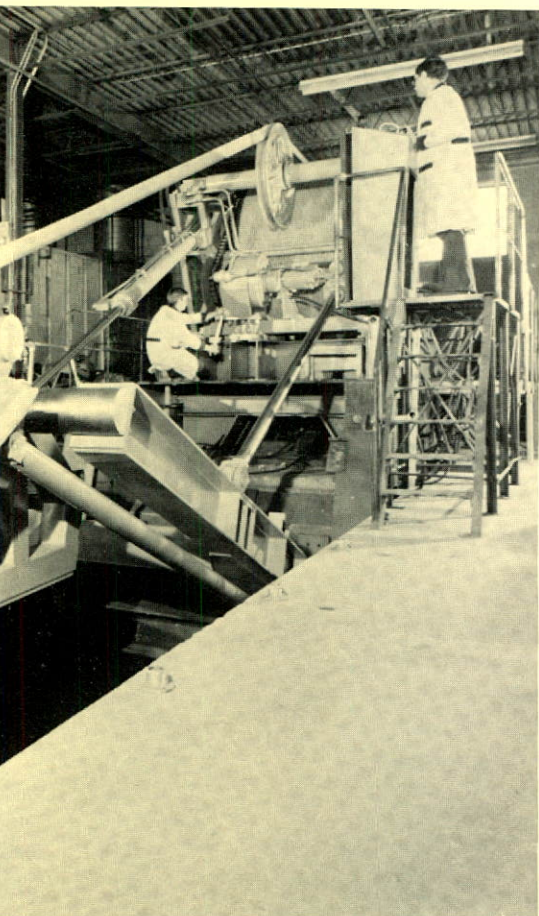


Above: The third of the six model 15-750 VDS systems being built for Raytheon Company for the Italian Navy.

present, wave energy systems do not enjoy priority within our Federal Government's National Energy Policy, so financial support will have to be sought elsewhere.

Other projects included work on a submarine antenna towed system, fairing evaluation programs, and a continuation of the FLEXNOSE fairing improvement program, which has proven so successful to date.

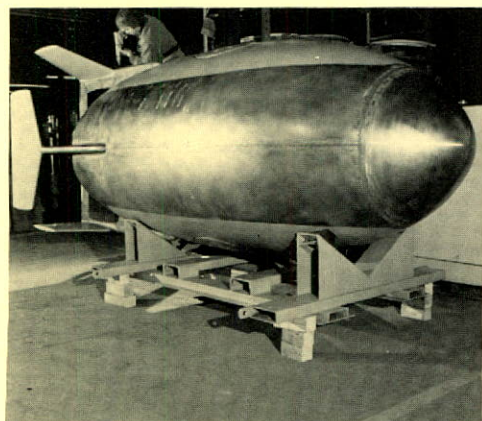
During the next fiscal year, we expect to complete work on certain mechanical aspects of the new 1500 series FLEXNOSE fairings, and look forward in the fall to its first high speed shipborne trial. We also intend to explore other possibilities in the field of alternative energy sources, and develop modifications of certain company products for use in high Arctic drilling conditions.



Right: The full scale CASCAN riser buoyancy system after undergoing successful ocean depth simulation tests before interested potential clients at the South West Research Institute, San Antonio, Texas.

Bottom right: The one-quarter scale WEGEPOWER buoy under test in the manoeuvring basin at NRC in Ottawa.

Below: The fish that will be used with the model 15-750 VDS system.



Marketing

Much effort was expended during the year to identify markets for both new and existing Fathom products. In particular, considerable executive time was spent in searching for companies which might offer complementary products or market access to areas which were felt to be fertile fields for Fathom products.

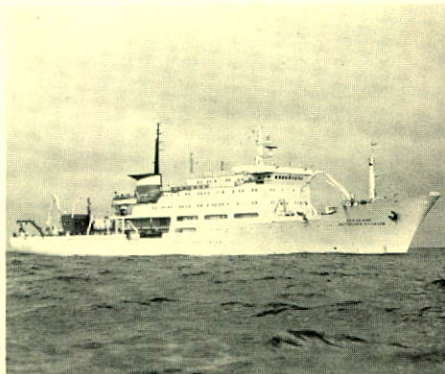
This process will continue in the forthcoming fiscal year, but it should be noted that during 1981, we successfully negotiated the acquisition of Almondbury Development Company Limited, of Yeovil, England, an engineering and scientific consultancy specializing in marine and related fields. The purchase was made for the sum of 65,000 pounds sterling paid through a combination of cash and Fathom shares. Later in this document we will describe the effect of this decision.

The announcement of the new National Energy Policy by the Federal Government in October 1980 seems to have had no positive results for Fathom. In fact, quite the reverse, in that decisions on most major projects have been delayed, and our introduction of the CASCAN concept now awaits a clear market opportunity. This project reached a full scale demonstration level (or should we say depth!) to potential clients when it was tested at pressures equivalent to 3,000 feet of ocean depth. The analysis of the reports and comments subsequent to the test contributed to design modifications which, in our opinion, improved not only certain operational items, but further increased the cost effectiveness of the system.

In the coming year, we expect to consolidate the new products available to

us due to the Almondbury acquisition, seek market outlets for CASCAN and WEGEPOWER, and seek more opportunities for defense work, both domestically and abroad. Present quotation levels are very high, so that we look to the new year with confidence.

Fathom takes pride in being one of the six founder companies which worked together to found the Canadian Ocean Industries Association, to fill a need identified in 1978 by concerned groups seeking a voice for that segment of Canadian industry offering specialized goods and services to the ocean industries. It is noteworthy that membership in this Association now counts thirty member companies, coast to coast, and Fathom executives continue to take an active part in the Association's many activities.



Top: One of many vessels fitted with Fathom search or research equipment.

Bottom: John B. Stirling, D. W. Fairles, N. E. Hale and D. W. Paterson pictured at the Toronto Stock Exchange, August 14, 1980 on the occasion of the first trade of Fathom shares as listed stock.



Above: Part of the recently installed computer facility at Fathom.

Right: Shop assembly and test of an outrigger supplied as part of a major package to National Steel & Shipbuilding Company, San Diego, California.

Subsidiary companies

Almondbury Development Company Limited

The acquisition of this firm by Fathom Oceanology Limited, effective April 1, 1981, is expected to have a beneficial effect on Fathom's operations, not only in the U.K. and the Common Market, but also world wide.

It seems appropriate to take some space in this report to outline briefly the type of work the company does, its facilities, products and services.

Although the incorporation is much older, since 1976 Almondbury has provided a wide range of engineering consultancy

services to both government and industry, on topics ranging from mathematical modelling for the design and manufacture of underwater vehicles and their payloads, through to the analysis of the collected data.

Its offices at Yeovil, Somerset and Portland, Dorset, in England, house the engineering, scientific, technical and administrative personnel who work on a contract basis to provide the skilled services referred to above, with the computer systems located at Yeovil.

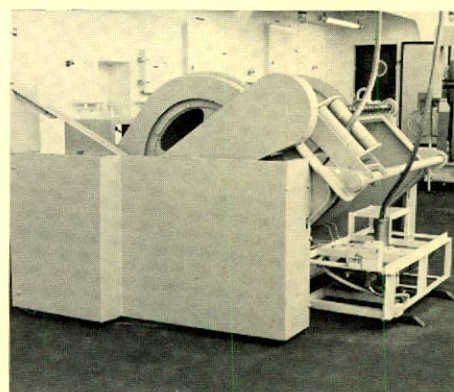
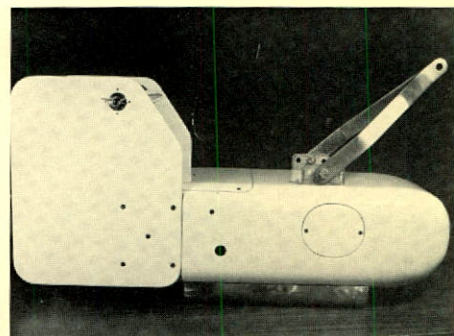
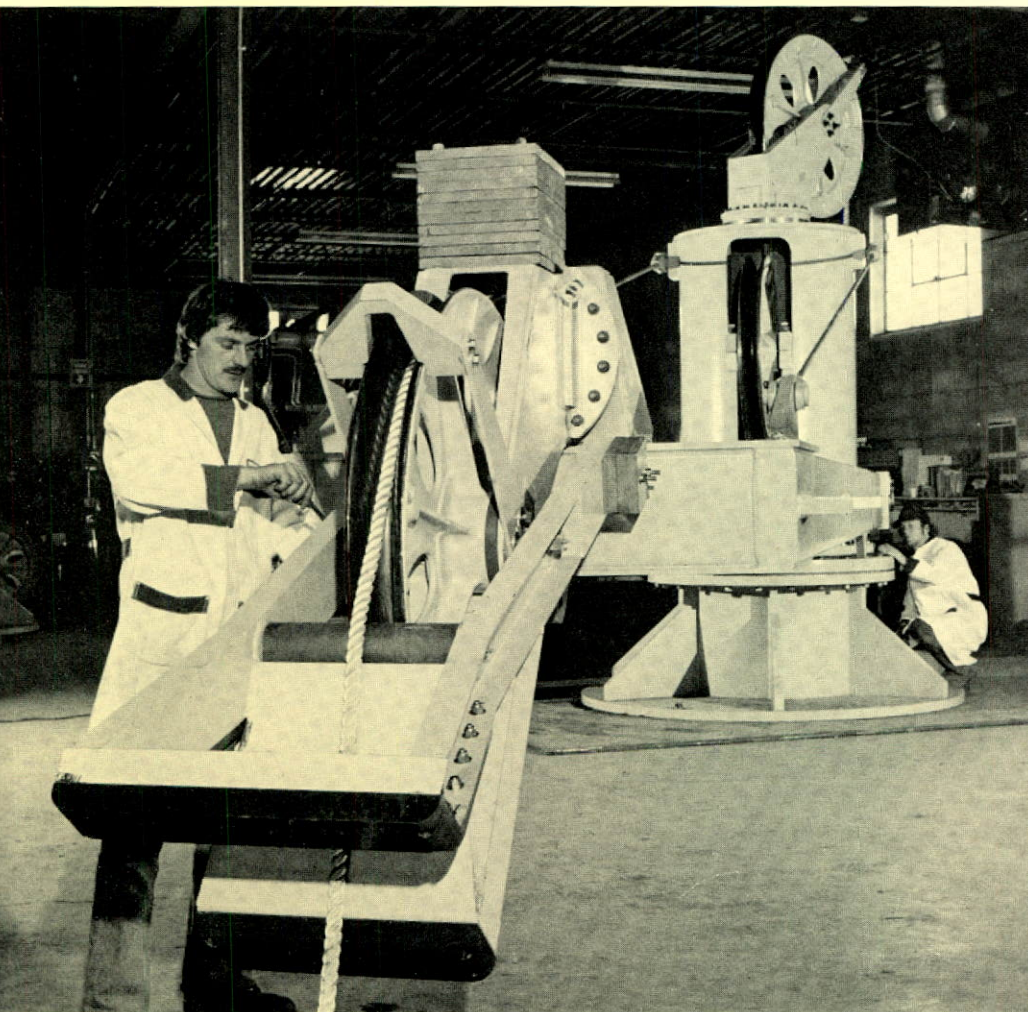
Almondbury's developed products include a family of towed vehicles having applications complementary and parallel to those of the Fathom tow fish. One particularly interesting unit is a self contained vehicle suitable for research applications, which can be towed at a wide range of speeds, and is designed to travel an undulating path through the

water, following one of several preset patterns.

The vehicle can carry a variety of instrumentation packages, also designed by Almondbury, for the recording of zooplankton, phytoplankton, temperature, depth and salinity. Using an in-board recording system, these data are digitally recorded together with depth information to permit subsequent analysis.

Other instrumentation packages can be fitted into the basic vehicle, and it can be supplied in a standard configuration, or modified to suit special applications.

It is our intention that these, and other products designed by Almondbury or Fathom Canada will be marketed within the U.K., the European Common Market and the Commonwealth except for Canada, by Fathom Oceanology (U.K.) Limited, and for the rest of the world by Fathom Canada.



Top: An Almondbury designed vehicle suitable for mounting on ships of opportunity to gather scientific data on a programmable basis.

Bottom: A small over-the-side-system supplied for water sampling when the ship is not in motion.

Fathom Oceanology (U.K.) Limited

In order to provide Almondbury with a high degree of technical independence, to pursue its consultancy role without conflicts of interest, it has been agreed to transfer the production of Almondbury designed equipment to Fathom Oceanology (U.K.) Limited. Of course, the latter company will continue to provide Fathom goods and services to its designated area, and also serve in an inspection and procurement mode for Fathom in the United Kingdom.

To make sure that the proper exchange of technical know how and data takes place between the companies, senior technical staff have been appointed to a committee which will meet at regular intervals.

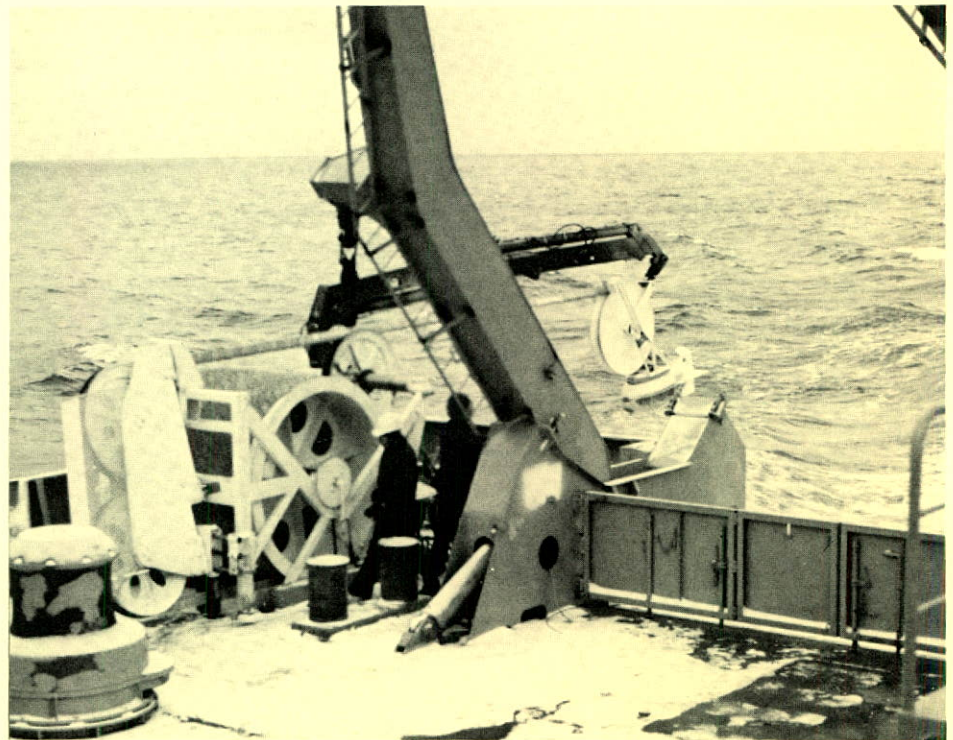
One specific area for this new association is in the military sphere. North American defense forces are paying particular attention to the field of Mine Counter Measures (MCM) in which the Royal Navy and European powers have much expertise. Almondbury, through several years of experience is deeply involved in current MCM activities and is contracted to the British Ministry of Defense for future system development. United with Fathom's capabilities we shall play a stronger role in the future development of this essential defense area.

The future

Present widespread economic conditions do not make business forecasting easy for the experts. However, Fathom is well placed in an exciting and innovative field, and we expect that our increased financial stability and broadened technical and market position will show a continuation of the steady progress of the last several years.

In particular, we expect that the synergy available from the Almondbury acquisition, and the attendant broadening of the activities of Fathom Oceanology (U.K.) Limited, will have significant short and long term benefits to the parent company.

In the coming year we plan to develop other market thrusts and identify additional acquisition opportunities.



Top: The Fathom booth at the offshore Technology Conference in Houston, Texas.

Bottom: A Fathom launch and recovery system designed to collect continuous water samples at a depth of 250M below the surface and speeds up to 12 knots.

FLEXNOSE, RIGSTREAM, PIPESTREAM, STARSTRAKE, CASCAN and WEGEPOWER are registered trademarks of Fathom Oceanology Limited and its subsidiaries.

Directors and senior management

Directors

- *K. R. Olsen, Hudson, Quebec
Chairman, Fathom Oceanology Limited; Vice Chairman and Chief Executive Officer, G. M. Gest Inc. and subsidiaries; Executive Vice President, Atlas Construction Inc.
- J. B. Stirling, Mississauga, Ontario
President and Chief Executive Officer, Fathom Oceanology Limited
- N. E. Hale, Mississauga, Ontario
Vice President and Director of Research & Development, Fathom Oceanology Limited
- J. M. Beresford, Ottawa, Ontario
President, Rideau Shipping Company Limited
- *J. B. Foote, Campbellcroft, Ontario
Industrial Commissioner and Manager, Chamber of Commerce, Port Hope, Ontario
- *A. H. C. Lewis, Toronto, Ontario
Vice President Planning, Extendicare Limited
- D. W. Paterson, Toronto, Ontario
Vice President & Director, Wood Gundy Limited
- *K. A. Powers, Toronto, Ontario
Vice President, Federal Business Development Bank

* Member of the audit committee

Officers

K. R. Olsen, Chairman
J. B. Stirling, President and Chief Executive Officer
N. E. Hale, Vice President and Director of R&D
J. O. Empey, Vice President, Manufacturing
D. W. Fairles, Treasurer and Controller
R. R. Walker, Vice President, Marketing
R. A. Donaldson, Secretary

Head office and plant

863 Rangeview Road, Mississauga, Ontario, L5E 1H1
Tel (416) 274-1551 Telex 06-960226

Subsidiary companies

Almondbury Development Co. Ltd.
Fathom Oceanology (U.K.) Limited
both located at Prestleigh House, Hendford, Yeovil,
Somerset, England BA20 1UW
Fathom Inc., Santa Barbara, California, U.S.A.
Hale & Associates Limited, Mississauga, Ontario

Transfer agent and registrar

National Trust Company Limited, Toronto, Ontario and
Calgary, Alberta



The Fathom management group clockwise from top left: Sam Fairles, Treasurer and Controller; Bob Walker, Vice President Marketing; Bill Hamilton, Manager of Engineering; Ken Berry, Manager Quality Assurance; Jim Empey, Vice President Manufacturing; John B. Stirling, President and Chief Executive Officer; and Neville Hale, Vice President and Director of R&D.

Bankers

Bank of Montreal, Toronto, Ontario
Midland Bank Limited, Sherborne, England

Auditors

Clarkson Gordon, Mississauga, Ontario

Legal counsel

Blake, Cassels & Graydon, Toronto, Ontario

Fathom shares trade on the Toronto Stock Exchange under the code letters "FAM"

Annual meeting

The annual meeting of the shareholders of Fathom Oceanology Limited will be held in the Library Room of the Royal York Hotel, Toronto at 4.30 p.m. on the 16th day of July, 1981.

FATHOM OCEANOLOGY LIMITED

(Incorporated under the Canada Business Corporations Act)

Consolidated balance sheet

March 31, 1981 (with comparative figures at March 31, 1980)

Assets	1981	1980
Current Assets		
Cash	\$ 10,364	\$ 38,586
Bank deposit receipts	354,255	200,000
Accounts receivable (note 4)	890,470	860,189
Costs and estimated earnings in excess of billings on uncompleted contracts	466,050	291,440
Inventory, at lower of cost and net realizable value	212,475	418,463
Prepaid expenses	49,795	28,470
Total current assets	1,983,409	1,837,148
Fixed, at cost (note 2):		
Equipment	496,563	450,904
Tooling	284,091	283,086
	780,654	733,990
Less accumulated depreciation	541,188	472,146
	239,466	261,844
Patents and leasehold improvements at amortized cost	40,102	62,765
Total fixed assets	279,568	324,609
	\$2,262,977	\$2,161,757

On behalf of the Board:

K. R. Olsen, Director

John B. Stirling, Director

(See accompanying notes)

Liabilities and shareholders' equity

	1981	1980
Current liabilities:		
Accounts payable and accrued charges	\$ 417,063	\$ 509,866
Billings in excess of costs and estimated earnings on uncompleted contracts	59,577	333,590
Income and other taxes payable — current	128,250	26,912
— deferred	157,500	115,979
Due to Ontario Development Corporation (note 2) —		
Export support loan		49,662
Current portion of venture capital loan	13,257	12,257
Total current liabilities	775,647	1,048,266
Venture capital loan (note 2)	8,228	21,485
Deferred income taxes	54,000	21,000
Total liabilities	837,875	1,090,751
Shareholders' equity:		
Share capital (note 3)		
Authorized:		
Unlimited common shares		
Issued:		
1,982,966 common shares (1980 — 1,859,966 shares)	945,993	900,033
Retained earnings	479,109	170,973
	1,425,102	1,071,006
	\$2,262,977	\$2,161,757

(See accompanying notes)

Consolidated statement of income and retained earnings

For the year ended March 31, 1981 (with comparative figures for 1980)

	1981	1980
Contract revenue	\$3,537,060	\$3,627,677
Product costs	1,858,495	2,061,446
Gross profit	1,678,565	1,566,231
Other expenses (income):		
Administrative	1,029,563	958,329
Research and development	127,289	113,735
Interest on long-term debt	5,889	24,804
Interest income (net)	(29,347)	(13,157)
Foreign exchange loss (gain)	5,035	(15,254)
	1,138,429	1,068,457
Income before income taxes and extraordinary item	540,136	497,774
Income taxes	232,000	225,000
Income before extraordinary item	308,136	272,774
Extraordinary item — reduction in income taxes arising from losses carried forward		87,000
Net income for the year	308,136	359,774
Retained earnings (deficit), beginning of year	170,973	(188,801)
Retained earnings, end of year	\$ 479,109	\$ 170,973
Income per share:		
Before extraordinary item	\$0.16	\$0.17
For the year	\$0.16	\$0.22
Fully diluted income per share:		
Before extraordinary item	\$0.15	\$0.15
For the year	\$0.15	\$0.19

(See accompanying notes)

Consolidated statement of changes in financial position

For the year ended March 31, 1981 (with comparative figures for 1980)

	1981	1980
Funds provided from:		
Operations —		
Income before extraordinary item	\$ 308,136	\$ 272,774
Charges to operations not resulting in an outlay of funds:		
Depreciation and amortization	102,170	111,842
Deferred income taxes	33,000	21,000
Funds provided from operations	443,306	405,616
Reduction of income taxes		87,000
Issue of common shares	45,960	14,640
Total funds provided	489,266	507,256
Funds were applied to:		
Purchase of fixed assets	57,129	181,781
Decrease in long-term debt	13,257	12,257
Total funds applied	70,386	194,038
Increase in working capital	418,880	313,218
Working capital, beginning of year	788,882	475,664
Working capital, end of year	\$1,207,762	\$ 788,882
Represented by:		
Current assets	\$1,983,409	\$1,837,148
Less current liabilities	775,647	1,048,266
	\$1,207,762	\$ 788,882

(See accompanying notes)

Notes to consolidated financial statements

March 31, 1981

1. Accounting policies

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Hale and Associates Limited, Fathom Inc. and Fathom Oceanology (U.K.) Limited, all of whose operations involve the supply and service of sophisticated marine equipment. These financial statements have been prepared in accordance with generally accepted accounting principles the more significant of which are summarized below:

(a) Contracts —

Profits on contracts are recorded using the percentage of completion method. Complete provision is made for losses on contracts in progress when they first become known. In the case of contracts extending over one or more years, revisions in cost and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known.

When the company enters into contracts with customers to develop and produce specialized equipment with the expectation that the Canadian government will share the specific development costs with the customer, the related government grants are accounted for as revenue by the company.

(b) Fixed Assets —

Fixed assets are recorded at acquisition cost. Government grants and investment tax credits relating to specific fixed assets are deducted from the acquisition cost of those assets. Costs which extend the useful life of a fixed asset are capitalized. All other costs of repairs and maintenance are charged to operations as incurred.

Depreciation is recorded in the accounts on the declining balance basis at the following annual rates:

Equipment	20%
Tooling	33 $\frac{1}{3}$ %

The costs incurred for patents, including patents pending, are capitalized and amortized on a straight-line basis over a ten year period. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(c) Income taxes —

The company follows the tax allocation method of accounting for income taxes. Deferred income taxes result from claiming deductions for income tax purposes in advance of charging such amounts in the accounts.

(d) Research and development —

Research and development costs, excluding costs of patents and patents pending, are charged to operations as incurred. Where government grants are received for research and development projects initiated by the company for its own purposes, these grants are deducted from the research and development costs.

(e) Exchange translation —

Certain of the companies' transactions occur in foreign currencies. Current assets and current liabilities relating to these transactions have been translated into Canadian currency at the rate of exchange prevailing at the year end. Revenue and expenses have been translated at exchange rates prevailing on the date of such transactions. The exchange gains and losses arising on translation have been included in income for the year.

2. Due to Ontario Development Corporation

The venture capital loan, which matures in 1983 bears interest at 8% and is repayable in blended monthly payments of principal and interest of \$1,206. This loan is secured by a floating charge on the company's assets and a chattel mortgage on equipment.

During the year, the export support loan of \$49,662 was repaid and the loan agreement terminated.

3. Share capital

During the year:

- 11,000 shares were issued for \$3,825 cash under the company's share purchase plan;
- 112,000 shares were issued for \$42,135 cash under the company's stock option plan;
- options were granted to certain employees to purchase 25,000 shares under the company's stock option plan, at prices varying from \$1.89 to \$2.115 and expiring in December, 1985 and March, 1986.

At March 31, 1981, options issued in prior years to purchase up to 37,500 shares at prices ranging from \$0.455 to \$0.63 were outstanding. These options expire at various dates up to January, 1984.

4. Commitments

- (a) To hedge certain U.S. dollar accounts receivable, the company has purchased forward exchange contracts requiring delivery of U.S. \$765,000 in varying monthly amounts to August 1981 at an average exchange rate of \$1.2004.
- (b) Commitments under operating leases for computer and office equipment amount to approximately \$18,000 annually to 1986.

5. Contingent liabilities for Government of Canada grants

In previous years the company received grants of \$909,000 for the development of towing systems, of which \$650,000 may be repayable on the basis of future sales arising from the developed technology.

To March 31, 1981, no provisions have had to be made in the company's accounts with respect to the possible repayment of these grants.

6. Pension plans

Based on actuarial valuations of the company's pension plans the present value of the unfunded past service liability at March 31, 1981 amounted to approximately \$84,000 which the company intends to fund and charge to earnings at the rate of approximately \$10,000 annually over the next twelve years. Current service costs of \$10,418 have been charged to operations during the year.

7. Export sales

The company recorded export sales of \$3,356,000 in 1981.

8. Subsequent event

On April 1, 1981 the company purchased all of the issued shares of Almondbury Development Company Limited (a U.K. company) for a total price of \$171,770. As consideration, the company paid \$23,215 cash and issued 67,596 common shares valued at the weighted average price of its shares traded on the Toronto Stock Exchange during the 25 trading day period ending on April 7, 1981.

Auditors' Report

To the Shareholders of
Fathom Oceanology Limited:

We have examined the consolidated balance sheet of Fathom Oceanology Limited as at March 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Mississauga, Canada
May 27, 1981

Clarkson Gordon
Chartered Accountants



Solving problems in depth